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Simpson

Simpson Timber Company
Lumber Division
P.O. Box 460
Shelton, Washington 98584 (360) 426-3381

February 25, 2000

Surface Transportation Board
Office of the Secretary
Case Control Unit
Attn: STB Ex Parte 582
1925 K. Street, N.W.
Washington, DC 20423-0001

Gentlemen:

Simpson Timber Company encloses an original, 10 copies, and a 3 ½ inch disk of our statement involving our position on STB Ex Parte No. 582. This proceeding addresses the subject of major railroad consolidations and the present and future structure of the North American railroad Industry.

I will make a personal appearance on Thursday March 9, 2000 as scheduled by the Surface Transportation Board.

Sincerely,

James E. Senner

James E. Senner
Manager Traffic Services

197059

BEFORE THE SURFACE TRANSPORTATION BOARD

WASHINGTON, D.C.

PUBLIC VIEWS ON MAJOR RAIL)
CONSOLIDATIONS AND THE)
FUTURE STRUCTURE OF THE NORTH)
AMERICAN RAILROAD INDUSTRY)

STB EXPARTE NO. 582

STATEMENT OF SIMPSON TIMBER COMPANY

BY

JAMES E. SENNER
MANAGER TRAFFIC SERVICES
SIMPSON TIMBER COMPANY
421 SOUTH FRONT STREET
SHELTON, WASHINGTON 98584
TELEPHONE: (360) 427-4938

February 25, 2000

My name is James E. Senner. I am Manager Traffic Services for the Lumber Division of Simpson Timber Company. I have occupied this position for approximately seven years. Prior to this period I was Director of Traffic for Simpson Timber Company and its affiliates for a term of 9 years. I have been engaged in the transportation field for 37 years and associated with the manufacture of wood products for approximately 31 years.

As Manager of Traffic Services I assist in the establishment of policy pertaining to transportation, interacting with Management, Sales, Marketing, Production, and Accounting groups. I appear here today to represent the views of Simpson Timber Company and its various operating divisions namely its Lumber, Plywood and Paper Divisions.

Simpson Timber is a privately held, major manufacturer of lumber, plywood, and paper products in the states of California and Washington with private timberlands in those states as well as the state of Oregon. It's Shelton, WA lumber manufacturing facility, when measured in terms of annualized production, is the largest single lumber shipping facility in the United States.. Simpson presently has under construction a new dimension lumber mill at Tacoma, WA, which will be completed in the first quarter of 2001.

Simpson generates approximately 10, 000 carloads of lumber, plywood and paper products annually. Additionally it relies upon the movement of wood product residuals, logs, veneer, waste paper, chemicals and fertilizer by rail to support its manufacturing and timberlands. Approximately 70 percent of our annual production is moved by rail throughout the United States.

Simpson appears here today to oppose any proposed consolidation or merger of class I railroads in the United States and do so without preference or prejudice to any single carrier or group of carriers.

The North American Railroad Industry

Since the announcement of the intended filing of the Burlington Northern Santa Fe (BNSF) / Canadian National Railway (CN) merger there has been a great deal of focus placed on the emergence of a North American Railroad Industry. The BNSF and CN have made reference to such an industry as well as the Surface Transportation Board in conducting these proceedings. It should be understood that no compelling reason or argument could be offered to establish the justification for such an industry today.

There is no economic standard of necessity that dictates the need for a merger of the nature proposed by BNSF/CN. It clearly does not establish that a test of public necessity and convenience can be met. Simply stated the U.S. represents the principle markets for many products produced in Canada.

Why is it imperative that these two railroads merge if those markets are presently accessed by CN through interchange with several U.S. carriers? The answer is simple. It is a proposed merger by corporate mandate and stockholders interest only.

We would take this position whether the proposed merger was BNSF/CN or Canadian Pacific (CP) and any other U.S. railroad. Financial viability of the CN and/or the CP should be a matter of consideration for the Canadian Government and the shipping public in Canada. Under the proposed BNSF/CN merger the Canadian Government has dictated that the location of the headquarters of the corporation must be in Canada. It is our opinion that matters governing the rail infrastructure of the United States, and its security, should not be directed by or from another country. We believe that national security should take priority to merger incentives.

Past Mergers

Over past years the shipping public has experienced a number of Class I railroad mergers. The Burlington Northern (BN) and Atchison Topeka and Santa Fe (ATSF) to form the BNSF, Union Pacific (UP) and Southern Pacific (SP) into a new UP, bisection of the Consolidated Rail Corporation (CR) into extended operations of CSX Transportation (CSX) and the Norfolk Southern (NS) to name a few. In each of these mergers or consolidations the shipping public has been severely impacted by service interruptions, inability of carriers to deliver products they transport, and large scale equipment shortages that impact manufacturer and receiver alike.

Yet a case could be made that the UP/SP consolidation was necessary due to the financial condition of the SP and the expectation that it had a short life without significant capital infusion into its infrastructure. The Union Pacific has committed to this refurbishment. The bisection of CR could at least be viewed as representing an opportunity to establish a competitive rail presence in the Northeast instead of the stranglehold CR had on this geographic market. We have yet to see this competition emerge between CSX and NS as they have had their hands full just trying to keep their respective railroads operating in the Northeast.

Shipper Dissatisfaction

Simpson Timber Company, and the shipping public as a whole, is frankly fed up with the rail merger experience and the representations made to them as trouble free transitions. Quite to the contrary, the public has been forced to live with crippling service levels, extreme car shortages, and significant financial burdens shouldered by them to wait out the results of the merger. This experience may very well be measured in terms of years.

The impact of these mergers on railroad customers may be illustrated by a U.S. Investment Research Paper done by Morgan Stanley Dean Witter on January 21, 2000. The report states that combined claims submitted to CSX and NS for poor service could amount to 250 million dollars. Further they estimate that the UP accrued approximately $500 million in damage claims as a result of its troubled integration of SP. A recent survey of shippers belonging to the National Industrial Transportation League reflected that 71% of the respondents estimated that they incurred damages as a result of the Conrail disruptions.

Recently Charles Schultz of the BNSF and James Foote of the CN endorsed a guarantee to rail shippers that existing gateways will remain open and that service levels will be the same or better. If their performance doesn't measure up, they continue, they "will make it right in a way that's right".

Well we all have heard that kind of assurance before, whatever it means. We do not need more service damage reimbursement through claims. Mergers seem to result in carriers moving cars at and through facilities of their convenience to meet operating objectives. Gateways may be preserved but service or price attributes may prove them to be impractical to use. A BNSF news release of December 20, 1999 best reflects this concern. It states "cost synergies are expected to result primarily from asset productivity initiatives derived from better utilization of locomotives, freight cars and facilities, purchasing efficiencies, economies of scale as well as combining certain administrative activities".

We should learn from past experiences and not move forward with additional Class I rail mergers at this time.

Impact of BNSF/CN Merger Application

Presently the rail structure of Canada and the United States encompass six large rail systems. It wasn't long ago that there were seven large railroads in the U.S. and two in Canada. The current four railroads in the U.S. are all products of merger or consolidations that we are still evaluating as to their impact on the public. The timing for a new merger is wrong as we cannot yet conclude the impact of its predecessors. Presently all six carriers compete with each other in many ways.

Merger of BNSF/CN will change that balance eliminating competition between these two entities.

It is important to understand that undertaking the BNSF/CN merger compels carriers that have not completed their consolidations to prematurely consider the next round of proposed consolidations. That effort would divert management and assets to merger strategies rather than to improving current operations and meeting customer requirements. The CSX and NS would be severely impacted in their recovery attempts in the Northeast should this effort be necessitated.

More important yet is the impact upon the shipping public. We are entitled to see a level of dependability returned to the rail industry before any merger attempts to distort competitive relationships within our respective industries. The public must shoulder the financial burden of claims associated with service conflicts of past mergers. They should not be forced to stand up under similar pressures associated with future mergers until the current burden is relieved.

Competitive Responses to BNSF/CN

There are those who think the natural reaction of the UP to the proposed BNSF/CN merger would be to merge with the Canadian Pacific (CP). I for one do not believe that this will be a priority for UP. Strategically, I would expect UP to seek out one of the two Eastern carriers in preference to CP. The CP must come through interchange to the U.S. market now with the exception of destinations represented by their U.S. operations. Those operations in themselves should not represent a significant justification for merger with CP.

Let's presume for a moment that UP does not merge with CP. CP may then be faced with going it alone. Lets assume that, due to competitive reasons, CP is at a substantial competitive disadvantage to BNSF/CN and cannot sustain itself. Then a significant problem emerges within Canada. Either the Canadian Government must provide financial support to CP or they must compel the BNSF/CN to take over CP operations in part or in full. Should the latter occur you would see a rail monopoly emerge in Canada and a huge amount of market power placed in the hands of BNSF/CN.

It is fair to assume that in the ongoing saga of rail consolidations BNSF/CN would align itself with the remaining Eastern carrier. Consider the huge amount of market power in the hands of now two carriers serving Canada and the U.S. The public would have virtually no ability to challenge these carriers to represent its interests. A partitioning of the U.S. market place could occur, dependent upon how the carrier views their economic interests, leaving the public without any competitive rail options. Any combination of alternatives resulting in two transcontinental carriers, would be disastrous to the public.

The Public Interest Standard

Any merger must meet a public service standard. This simply means that any merger may be approved only if the public harms of the transaction do not outweigh the public benefits. In this instance it pertains to the public benefit or harm in the United States since the Surface Transportation Board has no authority in Canada.

End to end mergers have been perceived as having little negative impact on the public in past cases. The BNSF/CN proposal provides considerable harmful effect on U.S. lumber producers, other industries, and railroads. BNSF proposes to stimulate Canadian produced lumber into the U.S. markets by generating 700 million dollars in new revenue through lower rates displacing U.S. production from those markets presently served by UP, CSX and NS. This simply translates to the loss of jobs by American producers to Canadian producers and the loss of revenues currently accruing to American railroads. Short line railroads, dependent on shipment of U.S. produced lumber, will see considerable reduction in revenues. End to end mergers have taken on a new dimension.

Open Access Alternatives

There are those that advocate open access as an alternative to the perceived loss of competition facilitated by future mergers. We urge the Surface Transportation Board to proceed with caution in advancing this concept. This alternative could have a devastating effect upon the U.S. lumber producing industry, and other industries, should the BNSF/CN merger become a reality.

First of all we can presume, that should the STB enact this concept, that U.S. carriers could not have open access to Canadian shipping points since the STB authority does not extend into Canada. Further the BNSF/CN would access U.S. receivers located on U.S. carriers expanding their competitive advantage through the infusion of Canadian produced products into the U.S.

markets at the detriment of U.S. lumber producers and carriers alike. Again this is not competition but a displacement of existing business and U.S. carrier revenues.

Think for a moment about the presence of U.S. Class I carriers in Canada. There are none if you exempt the insignificant incursion of the BNSF into Winnipeg, Manitoba and Vancouver, British Columbia.

Recommendations

We propose the following action be taken by the Surface Transportation Board:

- Establish a moratorium of five(5) years on all Class I railroad mergers
- Study the competitive impact of past mergers soliciting uncompromised shipper and receiver views
- Study the impact of rail service on the public as a result of mergers
- Assure that all damage claim issues, attributable to rail mergers, are concluded

Conclusions

The enactment of the Staggars Act in 1980 offered hope to shipper and carrier alike. It provided for regulatory reform and led to elimination of the Interstate Commerce Commission. This reform has allowed the railroad industry to reinvest in its infrastructure and change the historical geography of the industry in the United States. At the same time it was perceived by many as an open door that led to potential market abuse by the carriers and a lack of protection or recourse of shippers and receivers. We may have reached a point that we need to objectively look at the impact of past mergers and fully understand the implications of future mergers.

We allege that this process cannot be completed with continued mergers being proposed. Shipper and carrier alike may be polarized in addressing present or pending merger applications disallowing a free and candid expression of views. Even this proceeding is compromised in light of the pending BNSF/CN merger application expected late March of this year. It may be that the current rail structure in Canada and the United States best represents the public's interest and preserves competition to the extent we can expect it given present rail ownership and operations.

Simpson believes that the public and the U.S. Congress are very interested in the manner in which the Surface Transportation Board progresses this extremely important subject. We cannot afford any mistakes at this juncture in time. The wrong decision may have far reaching irreversible consequences. We urge the STB to proceed with prudent discretion for infrequently have so many been dependent upon the conduct and/or operation of so few.